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WORKING GROUP II
Agenda item 15

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SPECIAL MEASURES FOR THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES AIMED AT EXPANDING THEIR TRADE AND IMPROVING THEIR ECONOMIC AND SOCIAL DEVELOPMENT

Background documents for Working Group II

Note by the UNCTAD secretariat

Final Act of the First Conference, Annex. I.1 - (General Principle Fifteen)

Final Act of the First Conference, Annex IV.1, guidelines for international financial co-operation, paragraphs 1(iv) and 4

TD/3 Towards a global strategy of development - Report of the Secretary-General

TD/38 Charter of Algiers, Part Two, section G, special measures to be taken in favour of the least developed among the developing countries

TD/38/Add.1 Charter of Algiers, Addendum, Annex I, Item 15, Special measures to be taken in favour of the least developed among the developing countries.

TD/17 Special measures to be taken in favour of the least developed among the developing countries aimed at expanding their trade and improving their economic and social development - Report by the UNCTAD secretariat

TD/17/Supp.1 Special measures to be taken in favour of the least developed among the developing countries, The problem of identifying the least developed among the developing countries - Report by the UNCTAD secretariat

A/6714 Report of the Trade and Development Board (25 September 1966 - 9 September 1967), Chapter I

TD/8/Supp.1 Development of an international commodity policy - Report by the UNCTAD secretariat, Chapter II, paragraph 45 and Chapter VIII B.

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TD/12 The question of granting and extension of preferences in favour of developing countries - Report by the UNCTAD secretariat, paragraphs 21 to 23

TD/16 The problem of special preferences - Report by the UNCTAD secretariat, paragraphs 82 and 83

TD/II/WG.II/CRP.1 Excerpts from the statements made in the plenary meetings on special measures to be taken in favour of the least developed among the developing countries

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Corrigendum

Page 2, 5th line: Substitute "TD/II/WG.II/CRP.3" for "TD/II/WG.II/CRP.1".

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TRADE EXPANSION AND ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES, MEASURES TO BE TAKEN BY DEVELOPING AND DEVELOPED COUNTRIES, INCLUDING REGIONAL, SUB-REGIONAL AND INTER-REGIONAL ARRANGEMENTS

Organization of work

Note by the Chairman

Some twelve meetings of Working Group II have been tentatively allocated for the consideration of item 14. In dealing with this item it is suggested that the debate of the Working Group be concentrated on the major issues listed below.

1. Review of progress made and problems encountered in regard to trade expansion and integration among the developing countries. (References: TD/II/WG.II/Conf. Room Papers 1 and 2; TD/15/Supp.3 chapt. 3, paras. 2-20; E/CN.14/UNCTAD II/4.)

2. International support action

   a) Commercial support. (References: TD/15/Supp.1, paras. 72-77; TD/15, paras. 71-74, 86; TD/15/Supp.3, chapt. X, paras. 26-30 and chapt. XI.)

   b) Financial support, including payments arrangements. (References: TD/15/Supp.2, paras. 81-88; TD/15/Supp.4; TD/15, paras. 60 and 84.)

   c) Technical assistance. (References: TD/15, paras. 75, 92, 93; TD/15/Supp.1, paras. 88-90.)

3. Institutional arrangements. (References: TD/15/Supp.5; TD/15, paras. 81, 82, 88-90.)

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TRADE EXPANSION AND ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES, MEASURES TO BE TAKEN BY DEVELOPING AND DEVELOPED COUNTRIES - INCLUDING REGIONAL, SUB-REGIONAL AND INTER-REGIONAL ARRANGEMENTS

Statement made by the representative of the Secretary-General at the first meeting of the Working Group II on 23 February 1968

I

1. On behalf of the Secretary-General, I gladly take this opportunity of pointing to the main features of this subject matter which might otherwise remain submerged in the mass of documentation submitted to Governments at this Conference. The necessity to expand trade and create larger markets among developing countries is perhaps brought out most clearly by the fact that more than 80 per cent of the member countries of UNCTAD have a population of less than 15 million, and even most of those with a larger population have a purchasing power which is comparable to that of small European countries which have themselves felt the need to participate in larger multinational groups. If these developing countries want to push industrialization beyond a certain point, and if they want to avoid wastage of their resources through the establishment of enterprises of uneconomically small size or operating below capacity, the setting up of a multinational market becomes a necessity. According to calculations made in one of the developing regions, developing countries could reduce the trade gap by approximately one half if they decided to form a region-wide market. Moreover, if the developing countries wish to increase their exports to the very competitive markets of the developed countries, for instance by taking advantage of the setting up by the developed countries of a system of preferences for industrial products, they can hardly succeed unless they feel able to accept a certain amount of competition from other developing countries. While geographical proximity in a region or subregion favours, in general, the negoti tion of reciprocal commitments with a view to achieving an advanced degree of economic co-operation and integration, there is also a potential for mutually profitable trade links that could be established particularly, but in no way exclusively between more advanced developing countries of different regions.

2. What has so far been achieved to exploit these considerable potentialities? Let me here quote the Expert Group which the Secretary-General of UNCTAD has convened to examine this subject matter: It stated that "Governments have only in rare cases undertaken" the "effective action" which is necessary "if trade among developing countries is to expand, instead of stagnating". No doubt there are exceptions: Particularly two or three regional and subregional groupings are largely responsible for the fact that the share of the developing countries' exports directed towards other developing countries has ceased to diminish, though the share of the developing countries' mutual trade in total world trade has continued to decline.

II

3. Why are the results so modest? It is certainly not for lack of studies and solemnly declared intentions. One of the reasons is that some of the efforts are still going on. In other cases, a special effort was already required to simply maintain what already existed, that is, trade currents, for instance, within multinational markets inherited from pre-independence times but which had to be put on a more equitable basis in order to survive. A principal reason, however, for the relatively slow progress is the fact that to expand trade among developing countries special and probably greater difficulties have to be overcome than those which arise in connexion with similar efforts among developed countries. Let me enumerate some of these difficulties; for only if one is clearly aware of them, can the efforts for expanding trade and advancing towards integration be made really successful.

4. First, to the extent to which the developing countries are seriously preoccupied by their balance-of-payments situation, they tend to hesitate to reduce trade barriers. They will only do so if they are sure that the additional imports which would become possible would be compensated by additional exports of a strictly equal amount. The desire to obtain a strict and immediate reciprocity so as to avoid any risk of even temporary imbalance acts against the adoption of more far-reaching trade liberalization methods.

5. Another difficulty arises from the fact that in developing countries the proportion of revenue represented by Customs duties tends to be much higher than in developed countries. At the same time the tapping of other fiscal sources is less easy on account of the condition of the administrative apparatus. The Ministers of Finance are, therefore, often not showing excessive zeal when it comes to negotiating really substantial trade liberalization commitments.

6. Thirdly, in the conditions of underemployment which exist in most developing countries, a Government cannot risk endangering those employment opportunities that presently exist, and this contributes another ingredient to the reluctance to move ahead.

7. And if a reduction of trade barriers is, nevertheless, successfully negotiated, exports may still not take place because the developing country suppliers remain at a disadvantage even if their cost of production would be competitive. For instance, competitors from developed countries may still be able to offer goods on more favourable terms than suppliers from other developing countries because transport tends to be more expensive between developing countries than between developing and even distant developed countries, because the developed countries can offer more generous export credits, because the imports from the developed countries enjoy, in various cases, preferential treatment as against those from other developing countries, and because the developed country suppliers can sell goods under tied-aid arrangements, even though developing countries may be a cheaper source of supply.

8. Moreover, the problem of the differences in the level of development between countries which want to start a process of co-operation is not easy to resolve in view of the fact that very often the more advanced country is itself poor or has poverty-stricken areas within its own borders; this makes it politically difficult for such a country to assume the necessary responsibilities, especially in regard to what appears to involve financial transfers towards less advanced partners. And even among countries at a roughly equal level of development, each would like to be sure of having its share of the new enterprises that can be established thanks to the setting up of the multinational market.

9. Last but not least, the special nature of the problem of trade expansion among developing countries arises also from the fact that it is necessary to reconcile trade liberalization with the planning efforts that are considered necessary in most developing countries. If at the national level the development process is thus not left to the free play of the market forces, the same imperative will be felt when a multinational framework of economic development is being created. Yet, to plan or co-ordinate plans at a multinational level requires a stronger institutional framework and will of co-operation than when market forces are primarly relied upon. This has political implications which newly independent countries are at least as hesitant to face as the nations of the OLD WORLD.

III

10. What are the conclusions to be drawn from this rapid diagnosis of the particular problems encountered by developing countries in such joint efforts? They can be summarized under three headings:

11. First, for overcoming such difficulties and for attaining results that have a real effect on the rate of development, a long-term effort is required. Therefore, the expansion of trade among developing countries cannot be regarded as a substitute for improving, as soon as possible, the conditions of access and remuneration for the exports of developing countries to the developed world. This point has already been formally recognized by everybody at the 5th Session of the Board.

12. Secondly, these difficulties can only be overcome if one chooses very carefully the methods that would really be apt to achieve progress. In particular, it is not possible to rest content with copying the approaches so successfully followed in the developed part of the world. A combined approach bearing at the same time on trade barriers, investments and other financial aspects will probably most often be the only one that can lead to equitable and therefore politically acceptable results for all partners concerned. The Secretariat has come to this conclusion after studying and comparing systematically the methods which have been applied in the different regions; and we tend to think that the developing countries could learn a lot both from the successes and from the failures which other developing countries have experienced in other continents. From this, it appears clearly that a gradual approach is often most likely to overcome the difficulties and to convince countries, by concrete examples, of the advantages of co-operation, whereas too ambitious commitments may raise fears or may not be carried out. Accordingly, to think only in terms of common markets, free trade areas or economic communities among developing countries may often mean to miss grasping the more modest, but all the more real opportunities for progress. Already the mere reduction of trade barriers among developing countries to a more reasonable level would permit the emergence of certain trade currents, and by fixing for instance a certain ceiling to protection admissible within a group, it would become more difficult to take rational investment decisions that would be manifestly uneconomical when seen in a

regional perspective. In other regions again, and particularly between countries of different regions, only negotiations for item-by-item concessions can demonstrate to the enterprises and countries that other developing countries can be rewarding markets and thus contribute to changing the pessimistic view that the results which can be obtained from co-operation among poor countries are not such as to make it worth-while keeping up a sustained effort in that direction.

13. The third conclusion we have drawn is that while only developing countries can take the initiative for joint efforts, they could tackle the aforementioned obstacles much more effectively if for the solution of some of the problems they could count on the support of the international community. The more far-reaching a trade expansion effort among developing countries is to be, the more it will be handicapped by encountering the kind of problems which were enumerated before. Therefore, the more the developing countries have a reasonable expectation of assistance for solving these newly arising problems, the more they would feel encouraged to move ahead resolutely. Particularly appropriate channels for such support would appear to be regional or sub-regional development or integration banks for they could enable a particular group of countries to elaborate a sufficient number of multinational projects - which inevitably do not receive priority attention from national authorities - to modernize existing industries and enable them to face the consequences of liberalization, to enable capital from the area to participate in the new enterprises, and last, but not least, to ensure that relatively less advanced countries can also reap their share of advantages from the enlargement of the market; for the incipient industrial production that may be located in these less advanced countries the creation of regional or sub-regional market outlets will in many cases be more important than better access to the distant and very competitive markets of the developed world. Yet, if these banks are to play a decisive part in solving these various problems, they would have to receive an adequate share of external resources flowing into a particular group of countries that have decided to undertake a joint effort. Equally, as the UNCTAD Group of Experts on Payments Arrangements Among Developing Countries has pointed out, outside contributions to reserve funds, linked to multilateral payments arrangements among developing countries, would enable the latter to adopt more far-reaching methods for opening their markets to each other and would thus also permit, by the creation of larger economic units, a more efficient use of other development finance.

14. There is lastly the need for improving the dissemination of information, the training of staff and the technical assistance in this field. Presently it happens that efforts are undertaken with insufficient knowledge of what has practically worked in other regions, and what has not. The governments' desires to move ahead are often handicapped by the unavailability of sufficiently trained staff for tackling the difficult task of negotiations, and the experts put at the disposal of developing countries do not always possess sufficient practical experience of the commercial policy techniques on the one hand, and of integration on the other hand. Such experts are not easy to get, which makes it all the more necessary that the international community organizes itself in order to find them and make them available to interested governments.

IV

15. The secretariat has often been asked what action the present Conference could envisage under this item of the agenda. Since item 14 contains no indication of sub-headings, permit me to submit some considerations to the delegations with regard to the work programme. It can probably be presumed that the governments will not want merely to repeat the recommendations which have been adopted at the first Conference and which are couched in very general terms; I particularly refer to recommendations A.II.5 and A.III.8. Nor can UNCTAD realistically aim at adopting recommendations on what specific actions developing countries ought to take. Indeed the conditions in the various regions and the concrete needs and interests of the various governments differ quite widely and lead them quite naturally to place different emphasis on the approaches to co-operation which they adopt. For determining the specific content of reciprocal commitments among developing countries, the regional commissions of the United Nations and other regional bodies are therefore clearly the most suitable framework.

16. What can the Conference then do in this respect? I may recall that at the fifth session of the Board a discussion of this subject has already taken place, and the part of the Board's report which deals with this item may provide useful guidance to this Conference. We have therefore been distributing it as Conference Room Paper No. 2. Furthermore, I would like to draw attention to document TD/15 which we have submitted as the basic document for consideration of item 14 and

which summarizes the various UNCTAD studies on this subject matter which normally busy people do not have the time to read. In this report (TD/15) we have included in paragraphs 76-93 a number of considerations as to the subjects that may be dealt with at this Conference. I shall review them briefly:

17. The first point would logically seem to be the idea launched by the UNCTAD expert group and endorsed by most developing countries at the fifth session of the Board, that "it would be desirable that interested developing countries and their groupings consider stating at the second Conference the actions which they planned to undertake before the third Conference for expanding trade and increasing economic co-operation among themselves at the regional, sub-regional or inter-regional levels".[1/] By acting upon their stated intentions and by shaping their mutual trade and economic relations in such a way that they can serve development, developing countries would do their part in the global strategy for development which the Secretary-General of UNCTAD hopes to see emerge. In the Secretary-General's view, an unequivocal formulation of the determination of developing countries to take action along these lines would facilitate the efforts of UNCTAD to convince public opinion in the developed countries. For it would show that the developing countries do not only ask for the co-operation of others, but also co-operate among themselves.

18. The second point which this Conference might consider is the possible form of international support for joint efforts among developing countries. Outside support for joint self-help efforts of developing countries is probably, in various developed countries, a purpose of aid which is particularly attractive. Such a presentation may, therefore, help the efforts of some developed countries to come closer to the one per cent target. In this connexion, the developing countries have asked at the fifth session of the Board, and have confirmed it in Algiers, that the developed countries should "give serious consideration, before the second Conference, to the elaboration of a formal declaration of support for trade expansion and integration efforts among developing countries".[1/] Under the heading referring to international support action, one could, on the one hand, discuss the commercial policy attitudes of developed countries that may be needed

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1/ See A/6714, Part One, paragraph 169.

to enable developing countries to conclude agreements between themselves that would lead to an effective expansion of their mutual trade. The renunciation to most favoured nation or preferential treatment in connexion with trade arrangements among developing countries may be discussed under this heading. On the other hand, one could discuss and agree on the types of problems for which international financial support would be regarded to be legitimate and worth while, though, of course, concrete financial support could only be granted on the basis of a careful assessment of the specific needs of a particular scheme which a group of developing countries might present. In this connexion the problem of the international recognition and support for multilateral payments arrangements among developing countries could be brought up, all the more that the UNCTAD group of experts has come up with specific recommendations which have not yet been the object of the desirable thorough inter governmental considerations. Also the question of untying of aid for imports that other developing countries can offer on competitive terms may be discussed under the heading referring to international support action.

19. A third group of questions relates to institutional matters, that is to the further action of UNCTAD in this field. One problem that might be considered in this connexion is that in spite of numerous studies by expert groups and the UNCTAD secretariat, the subject of trade expansion and economic co-operation among developing countries has received exceedingly little attention within the present committee structure of UNCTAD. In every committee the main attention was given to economic relations with the developed countries, the implementation of which is in the short term no doubt of greater urgency. Furthermore, the uncertainty as to when and where specific discussions on this subject will take place has not facilitated the participation of specialists from the regions and the countries, though a number of them had expressed great interest in international consideration of this matter. Therefore, if the strengthening of economic and trade ties among developing countries has really the importance both developing and developed countries commonly tend to attribute to it, it may be useful to examine <u>how</u> the effectiveness of UNCTAD action in this field would be enhanced. Should, for example, mechanisms be established which enable and indeed encourage developing

countries to present concrete schemes for the implementation of which they feel they need some form of international assistance? A further question to consider is what would be the appropriate institutional framework for carrying out multilateral trade negotiations among all interested developing countries, regardless of whether or not they are situated in the same region; I may recall that such negotiations among those developing countries that are members of GATT are about to start. Governments may also wish to indicate the specific research tasks that UNCTAD should shoulder in the future, and the question may also be considered whether there are presently enough funds at the disposal of regional commissions, countries and groups that need export support in connexion with concrete negotiating efforts.

20. To conclude, for each of the three groups of problems - intended action of the developing countries, international support of action, institutional arrangements - the report of the fifth session of the Trade and Development Board, supplemented by the Algiers Charter and by TD/15 would appear to indicate which are the issues that may deserve consideration by this Working Party which is working under considerable time limitation.

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Regional payments arrangements in the ECAFE region: recommendations of the Seminar of Financial Aspects of Trade Expansion

Note by the UNCTAD Secretariat

In connexion with item 14 of the agenda, attention is drawn to the attached document containing a summary of the report of the Seminar on Financial Aspects of Trade Expansion, organized jointly by the secretariat of the United Nations Economic Commission for Asia and the Far East (ECAFE) and the United Nations Office of Technical Assistance, at Bangkok from 21 to 28 August 1967. It also contains the views and recommendations of the ECAFE Committee on Trade (eleventh session) on the subject. This document was submitted by the ECAFE secretariat for use by conference participants.

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INTRODUCTION

1. In pursuance of the resolution on Asian economic co-operation adopted at the first Ministerial Conference on Asian Economic Co-operation held at Manila in December 1963, a Working Group of Experts on Trade Liberalization was convened in 1964 to recommend an acceptable programme of trade liberalization including removal of quantitative restrictions and tariff reductions within countries of the ECAFE region. The Group recommended various trade liberalization measures which could very well be taken by the countries of the region and observed that such measures would result in a more rapid growth of intra-regional trade if they were accompanied by some form of payments arrangement with credit facilities.

2. The second Ministerial Conference on Asian Economic Co-operation held at Manila in December 1965 adopted a resolution on dynamic Asian economic co-operation, recommending that a study group be constituted from among the regional countries to examine financial aspects of trade expansion and the need for a payments arrangement to prevent imbalances likely to arise from expanded intra-regional trade. The Commission, in its resolution 66(XXII) on regional trade co-operation, welcomed the recommendation of the second Ministerial Conference and called upon Governments of member countries of the region to redouble their efforts to foster co-operation on both a regional and sub-regional basis in the field of trade, by finding practical ways of applying appropriate trade liberalization measures and by making the necessary preparations for convening a meeting of representatives of interested countries of the region under the auspices of ECAFE to establish guide-lines for meaningful bilateral and multilateral consultations among themselves.

3. The Committee on Trade at its tenth session held in February 1967 considered the secretariat proposal to convene a Seminar on Financial Aspects of Trade Expansion in 1967 and to prepare a study on regional payments arrangements for examination by experts at the Seminar. The Committee recommended that the study should contain several alternative schemes covering such facilities as a simple clearing arrangement, a reserve fund and various types of credit arrangements, on both a regional and sub-regional basis.

4. In accordance with the above resolutions and recommendations, the Seminar on Financial Aspects of Trade Expansion was jointly organized at Bangkok, Thailand, from 21 to 28 August 1967 by ECAFE and the United Nations Office of Technical Co-operation. Experts from Afghanistan, Australia, Ceylon, India, Indonesia, Iran, Japan, Republic of Korea, Laos, Nepal, New Zealand, Philippines, Thailand and Republic of Viet-Nam participated in it in their personal capacity and not as government representatives. Representatives from the International Monetary Fund and the Asian Development Bank attended the Seminar in a consultative capacity.

5. The Seminar recognized that, with the formidable economic problems confronting some of the regional ECAFE countries, the financial aspects of trade expansion are one facet of economic co-operation which merits attention. The countries may have to consider concurrently other forms of mutual help and co-operation which are conducive to regional growth such as co-ordination of production policies and trade liberalization measures.

6. The Seminar had full discussions on alternative schemes of payments arrangements, including a simple clearing system and a payments union with credit extension and reserve arrangements. As the basis for the discussion, a study on "Alternative payments arrangements for the ECAFE region" TRADE/TE/1 and another on "Payments arrangements within the ECAFE region" TRADE/TE/9 had been prepared by Mr. J. R. Gunn and Professor Robert Triffin, respectively, who also participated in the Seminar as discussion leaders. A number of background papers were also circulated to the participants. Having taken note of the relevant experience and developments relating to payments arrangements in other regions, the Seminar examined in detail the various alternative proposals for the ECAFE region, as given in the two studies. The results of the examination and recommendations are given in the following paragraphs.

I. A SIMPLE CLEARING UNION

7. The Seminar took note that, in some regions of the world, particularly Central America, regional clearing arrangements had facilitated the adoption and implementation of other measures of economic co-operation and trade liberalization which contributed strongly to expansion and diversification of production and trade in these areas. While a quantitative estimate was not possible, it was reasonable to expect that, in the ECAFE region too, the introduction of appropriate clearing arrangements might make a positive contribution in this direction. In examining the scope for clearing arrangements, the Seminar also took note of the relatively high volume of intra-regional trade in the aggregate global trade of the countries of the ECAFE region, as compared with those in other developing regions.

8. Some participants expressed concern that the introduction of a clearing scheme might, in the case of some countries with de facto convertibility, require or encourage the restoration of exchange controls and reduce access to international financial markets. Other participants felt that it was possible to introduce a clearing union of a simple character which would not reduce the advantages currently available to participating countries through the use of conventional international banking arrangements, but which would rather supplement the existing facilities.

9. The Seminar recognized that one of the principal benefits to be derived from a clearing union would be to bring about a closer degree of consultation and collaboration on trade and financial matters among participating countries and to foster such co-operation further in the wider sphere of economic development. A clearing system would doubtless provide valuable opportunities for the monetary authorities to establish closer relationships and could result in improved co-ordination of monetary and fiscal policies within the region. Such co-ordination would significantly promote sound regional economic growth and trade expansion. More specifically it was recognized that intra-regional transactions which were now settled through traditional modes of payment involving hard currencies could be multilaterally compensated by being channelled through a clearing union. This would enable the countries of the region to use more effectively their scarce international reserves.

10. Further, it was expected that the reduction in the number of foreign exchange transactions as a result of multilateral compensations and periodic settlements would lead to some savings in servicing costs in terms of foreign exchange. Final judgement on this point can be formed only after details of the proposed system have reached a more advanced stage.

The types of transactions that should be settled through a clearing union

11. It was generally agreed that all international payments both capital and current could be covered by a clearing union, although specific types of capital transactions may be excluded by general agreement. One participant raised the special problems related to the settlement for petroleum exports. The Seminar noted this and the general view was that commodity exceptions were undesirable and should be avoided; however, a satisfactory way of meeting this problem should be sought.

Should the scheme be mandatory or optional?

12. It was generally recognized that it must be left to each participating member country to decide whether the use of the clearing system should be mandatory or optional insofar as the private trade was concerned. It was recognized that a system which left the option of using the clearing union in the hands of normal commercial banks would permit the use of mutually advantageous commercial credit facilities currently available.

Geographical composition

13. The Seminar agreed that the actual composition of regional or even sub-regional groupings was of course dependent on the willingness of governments to enter into such arrangements. However it was recognized that a larger group involving a greater absolute amount of compensable trade would be superior to a smaller one. Further the inclusion of countries with strong over-all balance of payments or reserve positions would be essential to the successful operation of any clearing or credit arrangements. On the other hand some participants suggested that, if differences of conditions prevented the participation of some countries, such a scheme could usefully be initiated even with a more limited membership.

Settlement periods and interim finance

14. Settlement at monthly intervals was considered a satisfactory basis at the initial stage of a clearing arrangement. Suitable interest rates should be calculated on daily debit or credit balances and added to the monthly settlement positions. Debtor countries should be required to settle their net positions two or three working days before payments were due to creditors. Such an arrangement would avoid the need for the clearing union to carry large working reserves.

15. The Seminar also examined whether ceilings on the aggregate credit and debit positions of member countries in the clearing union were desirable. The general view however was that a ceiling arrangement would be operationally cumbersome and could be avoided by making the period between settlements appropriately short. This however did not remove the doubts of some participants as to whether ceilings could be avoided.

Unit of account, par values and guarantee provisions

16. It was agreed that all accounts of the clearing union should be kept in a common unit of account of the EUP type. For purposes of clearing, wherever possible, national currencies would have fixed parities in terms of this unit of account. Where a par value had been declared to the IMF and was fully effective, the parity of the national currency in terms of the unit of account would be based on this par value. Where the par value was not effective or a par value had not been declared to the IMF but a fixed exchange rate was applied to all foreign exchange transactions, the parity of the national currency in terms of the unit of account would be based on this rate of exchange. In both cases, the parity so established should be guaranteed by the government concerned as a protection against possible changes in the external value of its currency.

17. Where a parity of the national currency in terms of the unit of account could not be established because of the existency of multiple currency practices or other considerations, the values of transactions to be cleared through the union should be expressed in terms of an international currency such as the US dollar. These values could then be converted into units of account.

Existing bilateral agreements

18. The Seminar agreed that, in the case of countries operating bilateral payments arrangements joining a clearing union, the existing bilateral arrangements between such countries should be merged in the clearing, thereby effectively multilateralizing them.

Operational costs

19. The Seminar agreed that the most equitable method of apportioning the operational costs, which were expected to be very small in any case, would be to distribute them among member countries on a pro rata basis according to total turnovers of transactions and/or by equivalent interest differentials between credits and debits.

Organization

20. The management of the clearing union, it was agreed, should be placed in the hands of a managing board consisting of five to seven members depending on the number of countries participating. The countries with greater recourse to the clearing facilities of the union should have the right to nominate permanent representatives while the other members could nominate jointly the remaining members of the board on a rotating basis.

21. The accounting, settlement and secretarial functions of the union could most satisfactorily be lodged with an institution such as the Asian Development Bank or the central bank of a major participating country.

Guarantees against default

22. The Seminar recognized the importance of having adequate safeguards against possible defaults. In this connexion, it was agreed that all countries should participate in a joint and solidary guarantee against any losses arising from default. Strong additional guarantees could be provided by suspending the defaulting country from any access to the credits of the clearing while requiring all other countries to channel through the clearing union all payments to the defaulting member until its outstanding debt was wiped out in full.

Arbitration

23. In the event of a dispute, the likelihood of which was extremely remote, a conventional type of arbitration panel should be appointed to resolve the issue.

II. PAYMENTS AND RESERVE ARRANGEMENTS

24. The Seminar examined the subject of payments and reserve arrangements and based its discussions on the proposals given in models A and B in document TRADE/TE/1 and the proposed reserve fund described in document TRADE/TE/9. With regard to proposed arrangements for the extension of credit beyond the settlement dates as provided for in the clearing scheme, the participants expressed a wide range of opinions and varying degrees of support for schemes for providing mutual credits, beyond interim finance, to enable countries to finance temporary fluctuations in payments balances associated with the implementation of a programme of trade liberalization within the region.

25. A scheme of credits geared to a programme of trade liberalization would seem to be more acceptable to countries which have made most progress towards trade liberalization and currency convertibility, since it would help other countries accelerate their own progress in the same direction.

26. Several participants expressed the view that any system of credits for the region should have safeguards for avoiding persistent debtor and creditor situations and for dealing with such situations as they emerge. The participant of one regional surplus country, which was in any case providing considerable credits to the region, maintained that the change of trade structure which is fundamental to the development of the region is better achieved by the extension of credit on a private basis such as deferred payments and long-term investment credits.

27. Without reaching any final decision on the scheme as a whole the Seminar arrived at the following conclusions with regard to the technical aspects of a payments scheme.

Interest and guarantee provisions

28. It was unanimously agreed that interest and guarantee provisions on mutual credits must be adequate to induce potential lenders to extend the credits necessary for the effective functioning of the system and without which it could not operate.

29. Credits should earn interest at a rate at least equal to that earned by comparable investments in major money markets, primarily New York and London. Debtors should pay a slightly higher rate (say 1/4 or 1/8% more) in order to defray administrative costs; even this rate would be lower than that applicable to similar borrowings in foreign money markets.

30. Guarantees against exchange risks would involve the denomination of the credits either in US dollars or, preferably, in a regional unit of account similar to that of EPU.

31. Credits should carry the joint and solidary guarantee of all members against default by any one of them.

32. The further guarantees suggested earlier in part I with reference to a clearing union would ensure the rapid wiping out of defaults that might arise.

33. The combination of the above provisions and possibly some other safeguards should enable prospective creditors to regard their credits to the system as being as safe and attractive as any alternative investment of such funds in foreign money markets.

Lending criteria

34. The Seminar discussed whether lending commitments should be based on:

(a) intra-regional trade surpluses;

(b) intra regional payments surpluses, including the impact of non-trading transactions as well;

(c) over-all balance of payments and reserve positions.

It was generally agreed that the last criterion would be either the only one acceptable to creditors - and to the IMF - or would have to be introduced as a necessary qualification to any criterion based on intra-regional positions alone.

Borrowing criteria

35. The same question arose in this connexion and it was generally agreed that over-all criteria would also be necessary either as a substitute or as a qualification to regional criteria.

36. The relationship between credits provided on the basis of over-all criteria and intra-regional trade liberalization should be emphasized by linking borrowing facilities to the acceptance and implementation of trade liberalization commitments. Credits should be designed to protect the over-all balance of payments and reserve position of members against the unpredictable impact of regional trade liberalization.

37. Some participants however suggested that one way of establishing such a link directly and firmly would be to confine the credits to imbalances arising in the incremental trade of the countries of the region, inter-se, which would also have the advantages of limited financial requirements and of tackling the problem of having to finance persistent imbalances due to structural characteristics.

38. It was generally agreed that a discretionary system of lending was preferable in principle but it was conceded that, given the limited experience of regional countries in mutual co-operation in monetary affairs, a system of automatic credit was the more practical possibility for a start, but with loans limited to short periods and modest amounts.

39. Some participants suggested that, if specific criteria could be prescribed to ensure that credits were extended only for the purposes in view and in the appropriate amounts and that provision was made for their amortization strictly according to a prescribed schedule, a practical via media between complete automaticity and complete discretion could be found.

40. In the application of any discretionary lending scheme regional criteria and policy conditions should be co-ordinated with those of the International Monetary Fund and should benefit from its long and valuable experience in this respect. The assistance of the Fund should also be sought in the practical operation of the system.

Repayment criteria

41. It was agreed that borrowing countries should use any later surpluses to repay the credits temporarily extended to them. If this were to prove insufficient to assure prompt and full repayment, contractual amortization provisions - by monthly or quarterly instalments - should be used, in addition, to ensure repayment within a reasonable period.

Domestic and regional currency provisions

42. With regard to Model B of document TRADE/TE/1, objections were raised to the partial settlement of regional deficits in domestic currencies. The view was expressed that such a scheme introduces an element of bilateralism into what was intended to be an essentially multilateral relationship - viz., a regional payments scheme.

43. It was agreed that the concept of a regional currency backed by large amounts of inconvertible currencies for the retirement of which no clear provision was indicated would not be acceptable.

Effects on reserves

44. One of the questions raised was whether the diversion of funds held as reserves in major money markets to regional investments might not have the effect of reducing access to credit in such markets. Other participants observed that the maximum order of magnitude involved (3 to 5% at most in Professor Triffin's proposals) would be too small to have any substantial effect of this sort, and that the contribution of the system to the monetary stability of member countries would, on the other hand, make them more credit worthy in the eyes of foreign lenders and increase the willingness of the latter to invest in the ECAFE region.

45. With regard to the risks of exchange depreciation and of declines in the market value of investments to which international reserves are subject, it was also observed that the collective holding of reserves would not enhance such risks. In fact to the extent that a regional reserve fund could hold a broader spectrum of currencies and a more diversified portfolio of investments than an individual country could afford to do, there would be a reduction of both exchange and market risks, as in the case of an investment trust.

46. The above arguments were felt to apply with equal force to the scope for the enhancement of earnings from international reserves in so far as such reserves were held in a collective form. Furthermore, since the total amount of reserves required to be kept in a completely liquid form would be smaller in respect of a collective holding of reserves, the earning capacity of the reserves would be further enhanced. Also, to the extent that the deficits of some members were matched by the corresponding surpluses of others, the collective fund would provide for mutual settlement without a transfer of reserves between them, thereby saving the costs of such transfers.

47. Some participants, however, were not fully convinced by the arguments stated in paragraphs 44 to 46 above and expressed a desire that further studies be undertaken.

48. It was observed that a simulation exercise based on the statistics of the period 1959-1966 indicated that the net loans outstanding from members to the reserve fund, which would determine the maximum scope of default, were exceedingly small. Nevertheless it was agreed that persistent surplus countries which would be the principal depositors in a reserve fund would need the assurance of reasonable safeguards and guarantees as well as simple recovery procedures for such a scheme to be acceptable to them.

49. It was considered that regional co-operation through a reserve fund arrangement of the type suggested in Professor Triffin's paper would not run contrary to international co-operation in monetary affairs, because the objectives of the former were limited. Furthermore, to the extent that problems of liquidity were settled on a regional basis, pressures on world liquidity arrangements would be reduced.

50. The Seminar also noted that simple regional reserve fund arrangements had been recommended by the group of experts appointed by UNCTAD (TRADE/TE/6).

III. CONCLUSIONS AND RECOMMENDATIONS

51. Subject to the reservations and qualifications expressed in the body of the report, the Seminar reached the following conclusions:

(a) A simple clearing union, with monthly settlements, would be of benefit to member countries provided that participating countries offered traders and banks the option of using the traditional modes of settlement or additional ones to be established.

(b) Longer term credit commitments and facilities, while aiming primarily at supporting intra-regional trade liberalization, should be geared to the over-all balance of payments and reserve position of members, rather than to intra-regional surpluses and deficits as such.

(c) The provision of such credits would shift towards the region a small portion of monetary reserves which were currently invested entirely outside the region.

(d) Interest earnings and various safeguards including guarantees against exchange risks, default, illiquidity and inconvertibility would be essential to obtain the assent of lenders to such a system.

(e) As far as borrowing was concerned, any large credits should be discretionary rather than automatic so as to avoid any abuse of the system to finance persistent deficits and elude necessary pressures for balance of payments readjustment. Modest automatic credits might nevertheless be provided to initiate the system until operational contacts among members had made it possible to develop a workable forum for reaching collective decisions on the purposes and conditions and multilateral surveillance of discretionary credits.

52. The Seminar recommended that a study of the existing international banking and credit facilities available to the region be undertaken, in co-operation with IMF, with a view to evaluating whether they adequately served the current and potential trade needs of the region.

53. The Seminar also recommended that the secretariat undertake further detailed study of the trade and commodity structure of developing member countries with a view to identifying the products in which trade could be expanded if a programme of trade liberalization linked with some clearing or payment arrangements were introduced.

54. The Seminar recommended that the secretariat initiate consultations with central banks, commercial banks, trade organizations, governmental and related bodies, with a view to stimulating their interest in undertaking an investigation into all aspects of clearing and payments arrangements. Any clearing and credit scheme would raise many questions calling for careful appraisal and effective safeguards against possible dangers and abuses. The Seminar recommended that these problems be urgently studied in each member country, with the help of the expertise available within and outside the government. If a sufficient number of governments were to reach positive conclusions as a result of these studies, a committee of government and central bank officials and financial experts should be convened at an early date to formulate concrete proposals. Technical assistance from IMF and distinguished economists in the field of international finance should be sought in this matter. In this connexion the Seminar expressed its appreciation of the offer made by the International Monetary Fund to assist the regional member countries of ECAFE in the formulation of practical schemes of regional monetary co-operation.

IV. VIEWS AND RECOMMENDATIONS OF THE COMMITTEE ON TRADE

55. The report of the Seminar was placed for consideration before the ECAFE Committee on Trade at its eleventh session held at Bangkok from 18 to 26 January 1968. The Committee noted that, although the Seminar did not arrive at definite conclusions on the various aspects of regional payments and there was considerable work yet to be undertaken before a concrete proposal on regional payments arrangements and the most suitable form of regional payments could be formulated, the work of the Seminar constituted a significant step toward the implementation of the resolution on dynamic Asian economic co-operation adopted at the second Ministerial Conference on Asian Economic Co-operation held at Manila in 1965. It had also distinctly advanced the thinking in the ECAFE region on this vital subject of the introduction of a regional payments mechanism as a means of promoting intraregional trade expansion.

56. The Committee had an extensive discussion on the subject. Representatives of several countries expressed substantial agreement with the conclusions and recommendations of the Seminar while some expressed doubts on the benefits of the kinds of regional payments arrangements indicated in the report. Representatives of a few countries which had not sent experts to the Seminar stated that they needed more time to complete the examination of the report.

57. The Committee agreed that, in view of the complexity of the subject matter and the far-reaching implications that a regional payments arrangement might have on fiscal and monetary policies of each country, the report of the Seminar should be thoroughly studied by the various government agencies concerned in each country, as well as by the private sectors particularly commercial banks, since the adoption of a regional payments scheme would inevitably affect the traditional modes of commercial banking practices. The Committee noted that even a sub-regional payments scheme, such as the RCD Union for Multilateral Payments Arrangements which came into force on 1 July 1967, had undergone careful examination for some years before it was adopted. It also noted that the establishment of a payments arrangement for the Association of Southeast Asia (Malaysia, Philippines and Thailand) was recommended in June 1967. It was felt that the secretariat should render technical assistance, wherever possible, to such regional and sub-regional efforts. In this connexion, reference was made to the report of the UNCTAD group of experts on payments arrangements for developing countries which concluded that "Payments arrangements in general (whether clearing

arrangements, credit arrangements or monetary unions) could make positive contribution in varying degrees towards expansion of trade among developing countries."[1] It was also pointed out that, apart from the technical complexity of the subject matter that had to be overcome, political will was required by interested countries concerned in the realization of such a regional co-operation project.

58. The Committee supported the Seminar's recommendation that a study of the existing international banking and credit facilities available to the region be undertaken, in co-operation with IMF, with a view to evaluating whether they adequately served the current and potential trade needs of the region. It also supported the recommendation that the secretariat undertake further detailed study of the trade and commodity structure of developing member countries with a view to identifying the products in which trade could be expanded if a programme of trade liberalization linked with some clearing or payments arrangements were introduced. These studies would facilitate technical investigations by governments and assist them in reaching policy decisions. Recalling the spirit of the Manila resolution on dynamic Asian economic co-operation, which did not consider the creation of regional payments arrangements as an end in itself but as a means toward intraregional trade liberalization and expansion, the Committee welcomed the secretariat's plan to place the above-mentioned studies together with the Seminar's report before the meeting of government trade experts on trade expansion, scheduled for Bangkok in September 1968. It was expected that the meeting would place the question of regional payments in proper perspective and would make policy recommendations for consideration by the third Ministerial Conference on Asian Economic Co-operation.

59. The Committee examined the secretariat's plan to send a mission of experts to consult with Governments, central banks, commercial banks and trade organizations in countries of the region with a view to stimulating their interests in undertaking an investigation into all aspects of clearing and payments arrangements. While representatives of several countries were of the view that the mission should be dispatched as soon as possible, without having to wait for the two above-mentioned studies to be completed, others felt that it would be rather too early to send a mission at this stage. After considerable discussion, it was generally agreed that instead of sending a mission, the secretariat might, when requested, hold informal consultations at an appropriate time in order to assist the countries in conducting technical investigations and to enable them to formulate their positions.

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Second session
WORKING GROUP II

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DRAFT REPORT OF WORKING GROUP II
on its deliberations concerning item 14

Rapporteur: Mr. M.D. Laloux (Belgium)

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I. Draft declaration adopted by Working Group II.

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INTRODUCTION

1. At its 62nd plenary meeting on 16 February 1968, the Conference established Working Group II with the following membership:
Afghanistan[1], Algeria, Argentina, Australia, Austria, Belgium, Bolivia, Brazil, Bulgaria, Burma, Burundi, Ceylon, Chad, Chile, Colombia, Congo (Democratic Republic of), Czechoslovakia, Denmark, Federal Republic of Germany, Finland, France, Greece, Guatemala, Hungary, India, Iran, Iraq, Ivory Coast, Japan, Liberia, Madagascar, Malaysia, Mexico, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Philippines, Poland, Republic of Korea[2], Romania, Spain, Sweden, Switzerland, Syria, Tunisia, Turkey, Uganda, Union of Soviet Socialist Republics, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United Republic of Tanzania, United States of America, Uruguay and Venezuela. It was agreed that the representative of any country member of UNCTAD interested in the Working Group's deliberations would be free to participate in its proceedings.

2. The Conference referred to the Working Group items 14 and 15 of the agenda for consideration and report, [in conformity with the recommendation made by the Trade and Development Board at its fifth session (A/6714, part one, paragraph 22 (iii))]. Item 14 of the agenda, as adopted by the Conference, reads as follows: "Trade expansion and economic integration among developing countries, measures to be taken by developing and developed countries, including regional, sub-regional and inter-regional arrangements".

3. At its first meeting on 23 February, the Working Group elected as its Chairman Mr. H.M.A. Onitiri (Nigeria), Mr. R. Navaratnam (Malaysia) as Vice-Chairman, and Mr. M.D. Lalcux (Belgium) as Rapporteur.

4. In considering item 14, the Working Group held .... meetings from 23 February to 7 March 1968.

5. At the Working Group's first meeting, the Chairman drew attention to the decision by the Conference at its 58th meeting to allocate items 14 and 15 to the Working Group (TD/SR.58). After some discussion concerning the order in which the Working Group might consider the two items and the various topics falling within the scope of these items, the Chairman proposed and the Working Group agreed to take up item 14 first and for this purpose approved the following order of business:

1/ Participating in deliberations on item 15
2/ Participating in deliberations on item 14

1. Review of progress made and problems encountered in regard to trade expansion and integration among the developing countries, including intended future action.
2. International support action,
   (a) Commercial support
   (b) Financial support, including payments arrangements
   (c) Technical assistance.
3. Institutional arrangements.

6. In the debate on item 14, the representatives of Guinea, Israel, Southern Yemen and ..... participated and spoke.

7. The representatives of the International Bank for Reconstruction and Development and of the International Monetary Fund attended the meetings. The Contracting Parties to the General Agreement on Tariffs and Trade were also represented. The following inter-governmental bodies were represented: the Organization for Economic Co-operation and Development, the Council for Mutual Economic Assistance, the Permanent Secretariat of the General Treaty on Central American Integration (SIECA), the African and Malagasy Common Organization, the International Union for the Protection of Industrial Property, the Permanent Consultative Committee of the Maghreb, the African Development Bank, the Asian Development Bank and the Inter-American Development Bank. In addition, the representatives of the Executive Secretaries of the Economic Commission for Africa, of the Economic Commission for Asia and the Far East and of the Economic Commission for Latin America participated in the Working Group's deliberations. The International Confederation of Free Trade Unions, a non-governmental organization also took part in the Working Group's debates.

8. A number of inter-governmental regional organizations, invited by the President to attend the Conference, were unable to be represented.

/The various chapters of the draft report will be circulated as addenda to this document./

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TRADE EXPANSION AND ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES, MEASURES TO BE TAKEN BY DEVELOPING AND DEVELOPED COUNTRIES, INCLUDING REGIONAL, SUB-REGIONAL AND INTER-REGIONAL ARRANGEMENTS /14/

DRAFT REPORT OF WORKING GROUP II

Rapporteur: Mr. D. Laloux (Belgium)

CHAPTER I

Review of progress made and problems encountered in regard to trade expansion and integration among the developing countries, including intended future action

9. The discussion of item 14 in the Working Group was introduced by a statement of the representative of the Secretary-General of UNCTAD (TD/II/WG.II/L.3). In the light of the discussions which had already taken place on the subject during the fifth session of the Trade and Development Board (A/6714 Chapter VII)[1] and the documentation prepared by the Secretariat, it was decided, after a preliminary exchange of views, first to review the progress made and problems encountered in regard to trade expansion and integration among the developing countries, including intended future action.

10. The statements that were made reflected the consensus among the developing and the developed countries on the essential role that trade expansion and economic integration among developing countries could play in promoting their economic development. The potential for trade expansion among the developing countries was vast. Although it could not be a substitute for larger trade flows between them and the industrially developed countries, expansion of trade among the developing countries could contribute significantly to reducing the gap between the total imports needed for their accelerated growth and their total export earnings.

1/ Issued as TD/II/WG.II/Conf.Room Paper 2.

11. Trade among developing countries and their regional and sub-regional co-operation could effectively promote in appropriate cases their industrialization, bring about a more rational use of their scarce domestic and external resources, and encourage specialization and productivity within economic groupings. All speakers recognized the limitations imposed on growth by the typically small markets of most individual developing countries. Even the representatives of those developing countries, whose size made them viable economic units, stated their support of and interest in regional integration.

12. In this connexion, it was recognized that the increased competition to which the producers of developing countries would be subjected after trade liberalization on a regional or inter-regional plane would enhance their competitive position in the markets of developed countries. Furthermore, it was recognized by both the developing countries and by some industrialized countries that through the formation of economic groupings the developing countries could strengthen their bargaining position and reduce their economic dependence vis-à-vis the developed world.

13. The debate disclosed the wide range of activities in the field of trade expansion and economic integration now being implemented in the developing regions of the world and the considerable progress made so far. The representative of one developed market economy country regretted that some developing countries in their statements had not been able to be more precise regarding their intended future action in this field. It was also pointed out by some other representatives of developed countries that generally the trade barriers of developing countries had increased during the last decade.

14. While stating their intentions to extend their own efforts to expand trade and economic co-operation among themselves, all the speakers from developing countries endorsed the appropriateness of a gradual approach in this regard. Most of the developed countries agreed with this view. This position underscored the difficulties the developing countries faced, and which frequently made only partial trade liberalization and modest forms of economic co-operation practicable.

15. Although the experience of the developed countries in the field of economic integration and trade expansion was recognized as capable of providing useful lessons to the developing countries, it was generally recognized that special problems tended to arise in the case of the developing countries and that the resulting difficulties were greater than those met with by the developed countries.

16. In the course of debate some of the chief problems identified in this regard by representatives of developing countries and which justified in their view special support by the international community were as follows :

(i) The inadequacy of the physical and commercial infrastructure and the high transport costs in the trade among the developing countries. In this connexion, representatives of regional development banks and of regional Economic Commissions, while stressing their readiness to assist in carrying out surveys and feasibility studies, called for more expertise and financial support to be made available to regional inter-governmental bodies.

(ii) The high protection of production activities resulting from the high rates of customs duty imposed for fiscal and protective reasons in developing countries and their pre-occupation with the maintenance of existing levels of output and employment in the face of eventual trade liberalisation due to already existing extensive underemployment and underutilisation of productive capacity. As a way out of this situation, some suggestions were made. The representative of one developing country called on developing countries to commit themselves, in the first instance, to a specific programme of trade liberalisation involving an across-the-board tariff reduction on a comprehensive basis or on a product-by-product basis, which could later be extended to cover import controls. Certain other speakers supported the abolition of Q.Rs. in trade among developing countries. Another representative of a developing country urged developing countries to grant without discrimination global quotas to products originating in other developing countries and which would increase at a rate to be negotiated.

(iii) The balance-of-payments difficulties which many developing countries were facing, and the need to cushion the possible negative effects on the balance-of-payments situation of some developing countries due to implementation of trade liberalisation programmes. In this regard, a number of representatives of developing countries urged that international support be provided for the establishment of multi-national clearance or other forms of payment arrangements among members of regional groupings and for purposes of promoting inter-regional trade.

(iv) The implications of preferential advantages enjoyed by some developed market economy countries in the markets of some developing countries, which placed even competitive exports of other developing countries at a comparative disadvantage. It was suggested by one representative of a developing country that these preferences should be eliminated altogether. According to another, they could first be extended by developing countries to other potential regional groupings and subsequently to all other developing countries. Another representative of a developing country stated that reverse preferences could be viewed as a counterpart of aid received. He asked whether any developed countries would be ready to provide a similar volume of aid without requiring any counterpart in commercial advantages.

(v) The need for ensuring that the less advanced members of regional groupings receive on a continuing basis an equitable share of the benefits of integration. It was noted that this problem would receive further attention in connexion with item 15 of the agenda.

(vi) The inadequacy of current levels of external participation in the capital of regional and sub-regional banks, particularly since the pre-financing and financing cost of multi-national projects were high.

(vii) The differences in social and economic policies of members of some regional groupings and at times the lack of political will also created difficult obstacles along the path of economic integration. Furthermore, while integration implied an ever closer co-ordination of the development decisions and objectives of member-states, in fact the economic planning in most developing regions was still embryonic and industrialisation programmes of developing countries members of regional groupings were not drawn up within a regional perspective.

17. A number of representatives of developing countries referred, to the absence, for many of their exporters, of non-tariff facilities and advantages available to developed country exporters. On the one hand developed countries were able to provide export credits and credit insurance on better terms and conditions in their trade with developing countries where traditional consumption patterns played in their favour. On the other hand, domestic firms of developing countries often lacked the skill or the means to conduct, vigorous export promotion campaigns, or were financially too weak to take advantage of a larger market.

18. A number of representatives of developing countries also mentioned the urgent need for skilled and experienced personnel to be made available through bilateral or multinational technical assistance and training programmes, particularly in the field of banking, tariff design and commercial policy.

19. Finally, representatives of some developing countries while emphasising the importance of co-operation in the field of trade, marketing and in jointly defending export interest in regard to certain primary commodities, pointed out the usefulness of broadening co-operation to other fields such as joint industrial ventures, jointly financed and jointly operating surface and air transport.

20. Although a large number of representatives recognized the need for a greater exchange of experience on integration and trade expansion between developing countries and for more information to be made available on similar experience of groupings of developed market economy and socialist countries, it was stressed by all speakers that it was for the developing countries themselves to decide on the approach best suited to their particular needs.

21. The representatives of all developed market economy countries who spoke in the debate, while recognizing the efforts made by the developing countries in promoting trade and integration between themselves, stated that much remained to be done and that the initiatives should come from the developing countries themselves. A suggestion was made that in the period between the Second and the Third Conference economically beneficial efforts by the developing countries in the direction should be stepped up. Indeed, such efforts would be in the interests of the developing countries, even if shortages of transferable resources should prevent these efforts from being supported by additional foreign aid.

A representative of a developed market economy country stated that efforts of the developing countries in the field of tariff reductions should aim, on the one hand, at a generally lower tariff barrier which would allow trade flows among these countries to expand and, on the other hand, at the consolidation of regional and sub-regional co-operation, extending to the formation of free trade areas and customs unions.

22. While recognizing that trade expansion and economic integration among developing countries was an essential element in any global strategy of development, some developed country representatives stated that it should not be carried out at the expense of third countries, but should contribute to an expansion of the world economy in general and of world trade, in particular. Other representatives, including one from a socialist country of Eastern Europe, said that groupings of developing countries should not isolate themselves from the world markets but should be outward-looking in nature. Warnings were sounded by the representatives of some developed market economy countries against any possible emergence of a pattern of criss-cross discrimination among the developing countries. Some of them also stated that the smaller and weaker developing countries might find - as was the experience of small developed countries - that the maintenance of the m.f.n. clause in trade among the developing countries might provide them with a desirable safeguard. In this regard another representative of a developing country requested the UNCTAD Secretariat to draw up a code of conduct or procedure to forestall discriminatory practices in the course of implementing trade expansion schemes among developing countries.

23. There was a consensus among the developed countries that the joint efforts of the developing countries could more easily overcome the obstacles encountered by them in expanding trade and cooperation between themselves if they were supported bilaterally or through international institutions. They also recognized that this area provided an excellent opportunity for applying the concept of synchronized action.

24. The representatives of socialist countries of Eastern Europe who participated in the debate considered the expansion of trade and economic integration among the developing countries as a welcome trend and of great importance to their

industrial development, particularly for the smaller among them. Progress in this field would contribute to an improvement in the international division of labour, particularly if it covered a wide set of co-operative measures, including the co-ordination of national plans and industrialization programmes, the establishment of jointly-owned enterprises, and the joint undertaking of large-scale infrastructural projects.

25. All the difficulties and obstacles holding back progress of the developing countries in trade expansion and economic co-operation were ascribed by these representatives to structural problems inherited from the colonial period and to the discriminatory policy practised by closed economic groupings of developed market economy countries. According to these representatives the Conference should aid the developing countries in their efforts at co-operation by proclaiming the right of the newly independent developing countries to receive compensation for the economic damage they had suffered as colonies and to exercise control over the profits earned by foreign companies on their territories.

26. It was pointed out by another representative of a socialist country that the abolition of vertical preferential systems and particularly the reverse preferences in the trade relations between developing and developed market economy countries would constitute a significant act in support of trade and co-operation efforts of developing countries. It was further urged that all economic groupings and particularly those of the developing countries should be open in character.

27. The view was advanced that the experience of economic co-operation within the framework of the Council of Mutual Economic Assistance (CMEA) could be instructive to the progress of economic co-operation among the developing countries because, inter alia, of the wide differences in the initial levels of development of its member countries.